

# Factors Affecting Implementation of Customs Integration in East Africa

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**Abstract-** A customs union refers in general terms to a political structure established by two or more states apparently not only to create a free trade platform but also to establish a common trade policy towards third countries, including the creation of common trade barriers. While progress has been made so far, significant aspects of these modules remains to be done. There has been problem of non-uniform customs tariffs existing within the E.A member states slowing down faster integration. The main purpose of the research study was to establish the institutional factors affecting implementation of customs integration in East Africa. The study narrowed its research undertakings into three major specific objectives which were to evaluate the effect of Revenue Collection Methods on implementation of customs integration in East Africa, to assess the effect of Infrastructure development on implementation of customs integration in East Africa and to investigate the effect of capacity development on implementation of customs integration in East Africa. The study area was Kenya border posts with Uganda and Tanzania. The sample size was 145 respondents. The study adopted stratified random sampling where the population was divided into stratum and the sample was selected randomly. The study found out that a strong and positive relationship between Revenue Collection Methods and implementation of custom integration. The relationship was significant ( $r = 0.336$ ,  $p < 0.01$ ). There was a strong and positive relationship between Infrastructure development and implementation of customs integration in East Africa. The relationship was significant at ( $r = 0.223$ ,  $p < 0.01$ ). There was a very strong and positive relationship between capacity development improvement and cross boarder logistics efficiency. The Relationship is significant at ( $r = 0.335$ ,  $p < 0.01$ ). The value of  $R^2$  is 0.239, revealing 23.9% variability in factors relating to Revenue Collection Methods, Infrastructure development and Infrastructure development improvement accounted to implementation of custom integration variables in the model developed. Anova results shows that the p-value of 0.000 that is below 5% significance shows that Revenue Collection Methods, Infrastructure development and Infrastructure development improvement has little but significance effect on custom integration. The beta coefficients result showed that this model implies that every per unit increase in Revenue Collection Methods leads to 0.238 increase in implementation of custom integration. An increase in Infrastructure development leads to -0.032 decrease in implementation of custom integration. A unit increase in capacity development improvement leads to 0.252 increase in implementation of custom integration. The study concluded that there has been little improvement in Revenue

Collection Methods since implementation of custom integration in E.A. East Africa partner states has poor Infrastructure development which is a major hindrance to custom integration. Employees are not skilled enough to facilitate implementation of custom integration. The study recommended that the East African Member states need to come up with common policies that will improve Revenue Collection Methods at the border point, come up with policies that are aimed at ensuring Infrastructure development projects development that supports custom integration and finally a common policy that support capacity development improvement for customs integration within East African member states for mutual benefit. However, further study is necessary to identify other institutional factors affecting implementation of customs integration in East Africa.

**Index Terms- Capacity development-** In what capacity development can ask in what role or function E. A member states are performing in. It also means the ability or power to do, experience, or understand something

**Custom Integration-** Simplifying Rules and Procedures for Freer Flow of Goods.

**Infrastructure development-** the basic physical and organizational structures and facilities (e.g. buildings, roads, and power supplies) needed for the operation of a society or enterprise.

**Revenue Collection Methods-** Revenue Collection Methods generally relates to a government agency's actions to collect outstanding financial obligations from the public. Revenue might come from a variety of sources: taxes, license fees, fines or use of state facilities.

## I. INTRODUCTION

The Customs Union implementation can be meaningful if there is net benefit to each Partner states, which would have not been realized without it. The issue is not whether the partners benefit equally but it is important that each partner state feels that there are benefits directly gained from the Customs Union. Such benefits will however, not come on a silver plate. It implies hard work. It means that as a country, we need to build productive capacity development to take advantage of the export potential, in the region. The Customs Union has also raised a lot of questions, uncertainty and anxiety. The biggest threat to the Customs Union is fear of the unknown. The Partner States, the Fast African Community Secretariat and the private sector institutions have a duty to conduct and sensitize members of the private, public and

Fast Africans in general about the Customs Union and what is in it to the East Africans (Cooksey, 2016).

The strides taken by the EAC to have a Customs Union Protocol in force and a Community Law - the Customs Management Act - made it attractive to other countries such Rwanda and Burundi to access the Treaty in 2006. The latter two countries became fully fledged members of the EAC in July 2007, and started to implement the Customs Union in 2009. The Republic of Southern Sudan has applied to join the EAC and the process of evaluating her admission is ongoing. Currently the EAC is recognized globally and representatives from various countries and international organizations have submitted their credentials to the Secretary General of the East African Community. There are other countries envying to join the regional bloc, as the Summit of EAC Heads of State and Government have said in their 2011 Communiqué. The region has increased both inter- and intra-regional trade, and has also witnessed an increase in intra-EAC Foreign Direct Investments (FDI) as well as in FDI from outside (Masinde, 2015)

## II. RESEARCH AND COLLECT IDEA

### Comparative Advantage Theory

The comparative advantage theory on the other hand, was first advanced by David Ricardo, an English economist, as a challenge to the absolute advantage theory. The theory holds that under free trade, an agent will produce more of and consume less of a good for which they have a comparative advantage. Unlike the absolute advantage theory which focuses purely on the ability of a country to produce goods more efficiently than another nation, the comparative advantage theory holds that where a country cannot produce a product more efficiently than the other country, chances are that it can produce that product better and more efficiently than it does other goods.

### Regional Integration Theory

Regional integration theory seeks to explain the establishment and development of regional international organizations (Bonilla, 2016). Key questions are why and under which conditions states decide to transfer political authority to regional organizations, how regional organizations expand their tasks, competencies, and members, and what impact they have on states and societies in their regions. Whereas regional integration theory started with a broad comparative regional and organizational scope in the 1950s and 1960s, it has since focused on European integration, the European Union and lately, the EAC. Regional integration has been organized either via supranational institutional structures or through intergovernmental decision-making, or a combination of both.

### Revenue Collection Methods and Implementation of Custom Integration

Widdowson, Blegen, Kashubsky & Grainger (2014) postulates that member countries are reluctant to implement an agreement to avoid double taxation due to the fear of making them unattractive to foreign direct investment. Moreover, tax exemptions are effective in attracting foreign direct investment, as they prefer tax exemptions, capital gains exemptions, and special exemptions from value added taxes and reduced stamp duty rates.

To this end, the harmonization of tax policies to eliminate tax distortions in order to achieve a more efficient allocation of resources in the context of tax harmonization would be unrealistic as this would require the same tax rates across the EAC partner states.

### Infrastructure development and Implementation of Custom Integration

Grethe (2018) examined the factors that influence economic integration in the East African Community (EAC). The discovery revealed that economic integration into EAC is influenced by factors within the EAC structure. EAC executives were found to have the appropriate skills and competences to promote economic integration (51.5%). On the other hand, he realized that most of the articles of the established CAO Treaty are not really respected. There is no free circulation of people, goods and services in EAC (74%). It was found that the weak points within the EAC structure that influence economic integration are the non-harmonized presidential electoral systems, the state leaders are not firm enough to follow the agreements of the implementation protocol, the non-harmonized policies, the lack of trust among the people of EAC, the different economic configurations and the fear of losing sovereignty in their respective states.

### Capacity development and Implementation of Custom Integration

Gwengi (2018) studied the analysis of the political economy of the East African Community (EAC), focusing on what drives and limits this regional organization to promote economic integration. In particular, it analyses the transport Infrastructure development and the monitoring of commercial policy, in particular the system for monitoring the implementation of regional integration. Structural factors, such as geography and shared historical experiences, continue to have a constant influence on the EAC policy options and on the effectiveness of the implementation of EAC policies. The solid informal institutions that have influenced the implementation of the EAC policy include sponsorships and a permits culture in the EAC, which encourages incentives for EAC officials and Member State representatives that are detrimental to the organization's effectiveness.

## III. STUDIES AND FINDINGS

On whether there has been improvement in Revenue Collection Methods since implementation of customs integration was shown by ( $M=2.9640$   $SD=1.27637$ ) who were neutral, the conclusion is that there has been little improvement in Revenue Collection Methods since implementation of custom integration since the member states. Majority of the respondents were neutral that there has been a little improvement in tax collection since implementation of customs integration as evidenced by ( $M=3.3885$   $SD=0.82102$ ), this shows that custom integration has led to little improvement in tax collection. On whether there were proper measures on revenue administration since implementation of customs integration as shown by ( $M=2.8129$   $SD=1.18302$ ), majority of respondents were neutral, the conclusion is that there were no proper measures in place to enhance revenue

administration among E.A member states. Majority of respondents agreed that there has been reduced cases of corruption since implementation of customs integration as shown by ( $M=2.9640$   $SD=1.27637$ ), the conclusion is that there have been some levels of transparency in revenue collected which has helped implement of customs integration.

On whether Infrastructure development affects custom integration, respondents agreed that Infrastructure development affects custom integration as shown by ( $M=4.3885$   $SD=0.82102$ ), the conclusion shows that Infrastructure development affects custom integration. Majority Respondents disagreed that East Africa member states has good road network as shown by ( $M=2.1295$   $SD=1.16868$ ), the conclusion shows that there has not been Infrastructure development; poor Infrastructure development is a major hindrance to custom integration. Respondents were neutral that there has been coordination between member states since implementation of customs integration as indicated by ( $M=3.2302$   $SD=1.43616$ ), the conclusion is that there has been little coordination between member states on implementation of custom integration. Respondents were neutral that east Africa member states has good railway network as evidenced by ( $M=3.2014$   $SD=1.38407$ ), the conclusion is that E.A member states have not been improving the railway network.

Majority of employees have skills to facilitate implementation of customs integration were neutral as indicated by ( $M=3.2302$   $SD=1.38407$ ), this shows that employees were not skilled enough to facilitate implementation of custom integration. On whether there are resources to support implementation of customs integration as indicated by ( $M=3.2302$   $SD=1.33143$ ), majority of respondents were neutral, this shows that there were no adequate resources to fully support implementation of custom integration, majority of respondents were neutral. Respondents who were neutral indicated that employees are competent to support implementation of customs integration as indicated by ( $M=3.0863$   $SD=1.17017$ ), this shows that employees are little competent. Respondents indicated to a moderate extent that there is technology to facilitate customs integration as indicated by ( $M=3.2230$   $SD=1.35691$ ), this shows that the available technology was not adequate used to facilitate implementation of custom integration.

On whether implementation of customs integration has reduced the cost of logistics integration as indicated by ( $M=4.1727$   $SD=1.15425$ ), majority of respondents agreed, this shows that there is reduced cost of logistics in customs integration. Respondents who were majority strongly agreed that implementation of customs integration has reduced delivery time as indicated by ( $M=4.5180$   $SD=0.68457$ ), this shows that there has been reduction in delivery time since the implementation of custom integration. Respondents agreed that implementation of custom integration has led to growth and development of member states as evidenced by ( $M=4.3885$   $SD=0.82102$ ), this shows that customs integration has led to development of member states. Respondents indicated to a great extent that implementation of customs integration has increased the competitiveness of a country's exports as evidenced by ( $M=4.3381$   $SD=0.86438$ ), this shows that there has been increased competitiveness of exports since the implementation of custom integration. Majority of respondents agreed that tariffs act as a barrier to logistics

efficiency as evidenced by ( $M=4.0567$   $SD=0.74959$ ), this shows that there has been barriers in logistics efficiency.

The  $p$ -value of the  $t$ -test for this variable is 0.008. Since the  $p$ -value 0.008 is below 0.05, the null hypothesis is rejected. Hence, the study finds that Revenue Collection Methods has significant effect on implementation of custom integration. The study findings agree with Gerring S.K (2014), who argued that if the  $p$ -value is less than the chosen significance threshold (equivalently, if the observed test statistic is in the critical region), then we say the null hypothesis is rejected at the chosen level of significance. The  $p$ -value of the  $t$ -statistic for the variable Infrastructure development is 0.760. Since the  $p$ -value 0.760 is above than 0.05, the null hypothesis is accepted and the alternative hypothesis rejected. This means that Infrastructure development has no significant effect on implementation of customs integration in East Africa. The study findings agrees with Rezaee (2016) who argued that If the  $p$ -value is not less than the chosen significance threshold (equivalently, if the observed test statistic is outside the critical region), then the evidence is insufficient to support a conclusion.

A simple regression analysis has shown a statistical significance relationship between capacity development improvement and implementation of custom integration, 0.022. Since the  $p$ -value 0.022 is below 0.05. Thus, we reject the null hypothesis, thus capacity development has significant effect on implementation of custom integration. The study findings agree with Gerring S.K (2014), who argued that if the  $p$ -value is less than the chosen significance threshold (equivalently, if the observed test statistic is in the critical region), then we say the null hypothesis is rejected at the chosen level of significance.

#### IV. CONCLUSION

There has been some little improvement in Revenue Collection Methods since implementation of custom integration since the member states. The custom integration has led to little improvement in tax collection among member states. There were no harmonized policies in place to enhance revenue administration among E.A member states. There have been some levels of transparency in Revenue Collection Methods since the implementation of customs integration but more need to be done to eliminate corruption so as to ensure there is maximum Revenue Collection Methods.

Infrastructure development affects custom integration. There has not been Infrastructure development; poor Infrastructure development is a major hindrance to custom integration. There has been little coordination between member states on implementation of custom integration. They lack good policies to develop Infrastructure development that will make custom integration a reality. East African member states have not been improving the railway network thus hindering movement of goods among member states.

Employees were not skilled enough to facilitate implementation of custom integration. There are no regular training programs among staff at the customs department. Proper policies are necessary to develop skills of custom officials. There were no adequate resources to fully support implementation of custom integration. Employees are little competent. The available

technology was not adequate to facilitate implementation of custom integration.

V. APPENDICES

**Appendix I: Introduction Letter**

Date: .....

To Chief Executive Office

**NAIROBI.**

Dear Sir/ Madam,

**RE: CONSENT FOR PROVISION OF ACADEMIC DATA**

I am an MBA student at Moi University. I wish to conduct a study entitled “effect of customs administration on cross border logistics efficiency among East African member states”

To facilitate the completion of this study, I wish to humbly request for your assistance with certain data from your organization. I have attached a copy of the questionnaire. Kindly answer all the questions as completely as possible. The study results are intended for academic purposes only and will be treated with utmost confidentiality. No specific reference will be made on your organization and only the summary results will be made public.

I look forward to your utmost support and remain grateful.

Yours Sincerely

Felix Kilonzi

**Appendix II: Questionnaire**

This section has questionnaire on the institutional factors affecting implementation of customs integration in East Africa. Please tick the most appropriate response to questions that give possible answers and write down the answers in the spaces provided in the open and close ended questions. The purpose of the research is purely academic and information revealed will be held with utmost confidentiality to anyone.

**SECTION A: GENERAL INFORMATION**

1. Please indicate the gender:

Male

Female

2. Please indicate age bracket

Below 20 years

21-30 years

31-40 years

Above 41 years

3. Highest Education Level

Primary school level

Secondary school level

Diploma level

University level

**SECTION B: IMPLEMENTATION OF CUSTOMS INTEGRATION**

Please state the extent to which you agree or disagree with the following statements regarding implementation of customs integration (1 strongly Disagree, 2 Disagree, 3 Neutral, 4 Agree and 5 strongly Agree)

	1	2	3	4	5
Implementation of customs integration has reduced the cost of logistics					
Implementation of customs integration has reduced delivery time					
Implementation of custom integration has led to growth and development of member states					
Implementation of customs integration has increased the competitiveness of a country's exports					
Tariffs act as a barrier to logistics efficiency					

**SECTION C: REVENUE COLLECTION METHODS**

Please state the extent to which you agree or disagree with the following statements regarding Revenue Collection Methods (*1 strongly Disagree, 2 Disagree, 3 Neutral, 4 Agree and 5 strongly Agree*)

	1	2	3	4	5
There has been improvement in Revenue Collection Methods since implementation of customs integration					
There proper measures on revenue administration since implementation of customs integration					
There has been an improvement in tax collection since implementation of customs integration					
There has been reduced cases of corruption since implementation of customs integration					

**SECTION D: INFRASTRUCTURE DEVELOPMENT**

Please state the extent to which you agree or disagree with the following statements regarding Infrastructure development (*1 Strongly Disagree, 2 Disagree, 3 Neutral, 4 Agree and 5 strongly Agree*)

	1	2	3	4	5
Infrastructure development affects customs integration					
East Africa member states has good road network					
There has been coordination between member states since implementation of customs integration					
East Africa member states has good railway network					

**SECTION E: CAPACITY DEVELOPMENT**

Please state the extent to which you agree or disagree with the following statements regarding capacity development (*1 Strongly Disagree, 2 Disagree, 3 Neutral, 4 Agree and 5 strongly Agree*)

	1	2	3	4	5
Employees have skills to facilitate implementation of customs integration					
There resources to support implementation of customs integration					
Employees are competent to support implementation of customs integration					
There is technology to facilitate customs integration					

**THANK YOU FOR FILLING THE QUESTIONNAIRE**

**ACKNOWLEDGEMENTS**

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